George Weston Limited

Annual Report '77

Contents

George Weston Limited is a widely diversified Canadian company conducting in Canada and the United States food processing, fisheries, forest products and wholesale-retail food operations. It has total consolidated sales in excess of $4.5 billion and

Weston's

INTERIM REPORT
TO SHAREHOLDERS

SIX MONTHS ENDED
JUNE 30, 1977

Tito

George

~~GEORGE~~ WESTON LIMITED

		1976
		9,000
		0,000
		3,000)
		9,000
		2,000
		0 to 1
		3,000
		5,000
		4,000
Earnings from Continuing Operations	**$ 2.36**	$ 1.33
Net Earnings (Loss)	**2.77**	(1.44)
Dividends	**.60**	1.065

George Weston Limited
Annual Meeting — May 8, 1978 at 10:30 a.m.
Royal York Hotel
Toronto, Ontario

Contents

GEORGE WES

CONSOLIDATED FIN

SIX MONTHS EN

(Una

(in thousa

INCOME

	Three Months Ended June 30		Six Months Ended June 30	
	1977	1976(1)	1977	1976(1)
SALES AND OTHER INCOME				
Sales (2)	$1,074,571	$1,008,926	$2,090,009	$1,951,360
Investment income	1,150	1,533	2,435	2,361
	1,075,721	1,010,459	2,092,444	1,953,721
OPERATING EXPENSES				
Cost of sales, selling and administrative expenses before the following items	1,028,725	963,019	2,003,243	1,872,352
Rentals on long-term leases net of deferred real estate income amortization	12,971	12,651	27,743	24,215
Depreciation	10,969	11,238	22,938	22,412
	1,052,665	986,908	2,053,924	1,918,979
OPERATING INCOME	23,056	23,551	38,520	34,742
Interest on long-term debt	4,654	5,073	9,260	10,136
Other interest expense	4,509	6,062	9,190	10,790
	9,163	11,135	18,450	20,926
Income from continuing operations before income taxes and minority interest	13,893	12,416	20,070	13,816
Income taxes	7,383	7,030	10,603	7,864
	6,510	5,386	9,467	5,952
Minority interest	(2,024)	(1,477)	(3,653)	(2,705)
INCOME FROM CONTINUING OPERATIONS	4,486	3,909	5,814	3,247
LOSS FROM DISCONTINUED OPERATIONS (2)		(3,561)		(9,837)
	4,486	348	5,814	(6,590)
EXTRAORDINARY ITEMS (3)	1,698	370	2,549	838
NET INCOME (LOSS) FOR THE PERIOD	$ 6,184	$ 718	$ 8,363	$ (5,752)
PER COMMON SHARE				
Income from continuing operations	39¢	33¢	48¢	24¢
Loss from discontinued operations		(32¢)		(89¢)
Extraordinary items	15¢	3¢	23¢	8¢
Net income (loss)	54¢	4¢	71¢	(57¢)

George Weston Limited is a widely diversified Canadian company conducting in Canada and the United States food processing, fisheries, forest products and wholesale-retail food operations. It has total consolidated sales in excess of $4.5 billion and 56,000 employees.

ON LIMITED

CIAL STATEMENTS

JUNE 30, 1977

d)

dollars)

CHANGES IN FINANCIAL POSITION

	1977	1976
WORKING CAPITAL DERIVED FROM		
Income from continuing operations	$ 5,814	$ 3,247
Depreciation	22,938	22,412
Deferred income taxes	5,194	1,076
Minority interest	3,653	2,705
Other	245	51
	37,844	29,491
Book value of fixed assets disposed	16,316	10,508
	54,160	39,999
WORKING CAPITAL APPLIED TO		
Discontinued operations		11,160
Purchase of fixed assets	36,726	46,378
Net reduction in long-term debt and other liabilities	17,514	7,186
Net increase in investments	5,705	877
Dividends	3,886	7,297
Purchase of minority interest	1,480	2,141
Dividends to minority shareholders in subsidiary companies	1,402	2,055
Net reduction in capital stock	284	70
Other items	794	837
	67,791	78,001
DECREASE IN WORKING CAPITAL	(13,631)	(38,002)
WORKING CAPITAL at beginning of period	120,832	144,475
WORKING CAPITAL at end of period	$107,201	$106,473

Notes (1) Restated to conform with financial statement presentation adopted at year-end 1976.
(2) Sales of $402 million for the six months ended June 30, 1976 were included in loss from discontinued operations.
(3) Extraordinary items in both years include tax reductions realized on application of prior years' losses. Income from continuing operations including tax reductions is $8,148,000 in 1977, compared to $4,085,000 in 1976.

1976
19,000
)0,000
53,000)
59,000
32,000
20 to 1
33,000
'5,000
34,000
$ 1.33
(1.44)
1.065

Toronto, Ontario

Contents

TO THE SHAREHOLDERS:

Net income for the second quarter of 1977 was $6.2 million, compared with $718 thousand in the second quarter of 1976. Net income for the six months ended June 30, 1977 was $8.4 million as compared to the net loss of $5.8 million sustained in the previous year. Income from continuing operations was also substantially higher for the first half of 1977 and including the significant tax reductions stemming from prior years' losses was twice that of the previous year. Sales of $1.1 billion and $2.1 billion for the second quarter and first half represented in each case increases of 7% over the same periods last year.

Operating income by division for the first half of 1977 as compared with the first half of 1976 is set out in the following table. Operating income is prior to interest expense, income taxes and minority interest.

	1977	1976	Increase (Decrease)
	(in millions of dollars)		
Wholesale & Retail..........	$18.7	$16.4	$ 2.3
Food Processing............	14.0	13.4	.6
Fisheries....................	10.2	6.4	3.8
Forest Products & Packaging.	(4.4)	(1.5)	(2.9)
	$38.5	$34.7	$ 3.8

The Wholesale and Retail operations of Loblaw Companies provided a strong and increasingly important divisional contribution. Loblaw's U.S. food distribution operations maintained their very satisfactory performance while Canadian operations also showed progress in spite of continuing strong competition.

Our Food Processing businesses were able to recapture some of the momentum lost during the weak first quarter but increasing costs and limited pricing flexibility continue to challenge profit growth in several product areas, including our chocolate and baking operations. The Fisheries Division benefited in the second quarter from the very favourable herring roe operations on the West Coast.

Our Forest Products Division continues to suffer from competitive markets for its fine paper grades. While recent price increases in this area and stronger lumber operations currently offer some hope for improvement, we do not now anticipate that this Division will contribute to our overall profit growth for this year.

In addition to the operating profit improvements noted, your Company is beginning to benefit from the reduction in interest costs associated with recent disposals – this element will provide an increasing contribution to earnings as the year unfolds.

The current outlook for your Company's businesses may be considered mildly favourable, but further improvement in our forest product operations will be required before a satisfactory level of profitability can be achieved. However, with the now greatly enhanced stability and improved financial strength of our operations, we look forward to the remainder of the year with confidence.

W. GALEN WESTON
Chairman of the Board
& Managing Director

Toronto, Canada
August 8, 1977

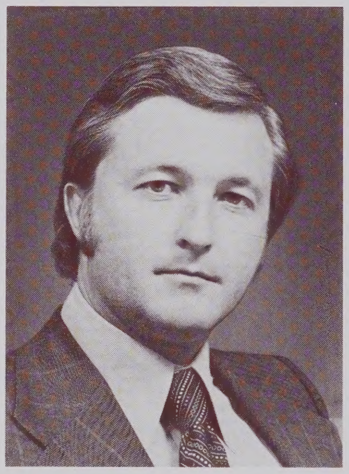
George Weston Limited is a widely diversified Canadian company conducting in Canada and the United States food processing, fisheries, forest products and wholesale-retail food operations. It has total consolidated sales in excess of $4.5 billion and 56,000 employees.

Financial Highlights	**1977**	1976
Sales	**$4,590,090,000**	$4,344,849,000
Earnings from Continuing Operations	**27,477,000**	15,800,000
Net Earnings (Loss)	**32,045,000**	(14,763,000)
Cash Flow from Operations	**95,393,000**	75,659,000
Working Capital	**175,853,000**	120,832,000
Working Capital Ratio	**1.37 to 1**	1.20 to 1
Dividends	**7,754,000**	12,883,000
Shareholders' Equity	**305,201,000**	206,275,000
Total Assets	**1,146,006,000**	1,189,434,000
Per Common Share		
Earnings from Continuing Operations	**$ 2.36**	$ 1.33
Net Earnings (Loss)	**2.77**	(1.44)
Dividends	**.60**	1.065

George Weston Limited
Annual Meeting — May 8, 1978 at 10:30 a.m.
Royal York Hotel
Toronto, Ontario

Report to Shareholders

W. Garfield Weston



W. Galen Weston

In last year's report, we stated that "a more balanced and improved profit performance can be expected in 1977." We are pleased to report that these objectives were clearly achieved in the year past and the present outlook continues generally favourable. Sales increased from $4.3 billion to $4.6 billion. The increase, on a comparable basis after adjusting for operations sold in 1977, was approximately $0.4 billion or 10%.

Earnings from continuing operations increased by 74% from $15.8 million to $27.5 million ($1.33 to $2.36 per common share). Net earnings at $32.0 million, after the effect of tax reductions resulting from application of prior years' losses, reflected a total change in net earnings of $46.8 million from the loss of $14.8 million in 1976. Net earnings per share thus increased from a negative $1.44 to a positive $2.77 per share.

The major improvement in your Company's earnings resulted from the return to profitability of the Wholesale and Retail Division after the extensive surgery of the previous year and the sale in 1977 of the remaining non-food retail operations. Significantly, however, the operating incomes of each of the Company's four divisions showed improvement on a comparable basis. The Food Processing Division attained record sales and earnings, topping its best-ever figures set last year.

The Fisheries Division had a very successful year, benefiting from both an increase in demand and increased availability of fish. The low prices generally prevailing during the year in pulp and paper continued to depress earnings in the Forest Products Division, which however, reflected the improved performance of comparable operations over the previous year.

Just under half of the operating income in 1977 was provided by the food distribution operations with just over 30% and 20% from Food Processing and Fisheries respectively, whereas the contribution of the Forest Products Division remained marginal. Food distribution and Fisheries thus marked a strong return to more acceptable levels of profitability, while Food Processing maintained its good performance, demonstrating the stability and improved balance which your Company hopes to achieve through its diversified operations. A satisfactory level of overall profitability for your Company cannot be attained, however, without a more normal level of return in the forest products industry.

A summary of operating income by division follows. Operating income is before interest expense, income taxes, minority interest and extraordinary items:

($ millions)	1977	1976
Food Processing	31.7	30.9
Fisheries	21.4	11.8
Forest Products (including Packaging $6.0 in 1976)	1.6	5.5
Wholesale and Retail	47.3	42.4
Total	102.0	90.6

The program of sale or closure of loss-making operations was completed during the year, the most significant sale in 1977 being that of the Tamblyn chain of drug stores operating in Eastern Canada. A small extraordinary net gain resulted from these transactions.

In addition to stemming the losses from uneconomic operations, the restructuring and divestiture program of the past several years has resulted in a substantial cash inflow which, when applied to outstanding debt, has reduced interest costs and materially increased net earnings. This reduction in financing costs was further enhanced by the issue on December 1, 1977 of $75 million of term preferred shares, the proceeds of which were used to repay short and long-term debt.

The four divisions of the Company are now self-sustaining and stable, each with a strong competitive position with good opportunities for future growth. They are adequately provided with substantial managerial, financial and technical resources needed for profitable growth, but will continue to require the retention of a substantial portion of their earnings to fund the capital reinvestment for such growth. While the general economic outlook is not encouraging, and the costly task of modernizing assets in an inflationary environment is still only partially complete, we feel that Weston now has a solid foundation both in terms of profits and facilities. We would like to express our thanks for the solidarity of our executives and employees as well as the patience of our shareholders, especially over the last few difficult years. We now have every expectation that the appropriate rewards will be forthcoming for all concerned, and look forward with confidence and some optimism to the future.

W. Garfield Weston
Vice Chairman of the Board
and President

W. Galen Weston
Chairman of the Board and
Managing Director

Serving the Community

The Weston group of companies has for many years been a significant factor in the economy of Canada and the United States. Starting from a small bakery operated by Mr. George Weston in Toronto in the 1880's, and progressively expanding and acquiring new lines of business, it has attained positions of national leadership in wholesale and retail food distribution and in the food processing, fisheries, and forest products industries.

A key motivation for Weston management throughout this period has been to provide essential products and services to communities of people in the most efficient manner. This means that changing consumer tastes and needs must be met through the development of new and better products, which calls for continuing improvements in capacity and efficiency. But the replacement, modernization and expansion of facilities and the development of more effective techniques in production and distribution is expensive and for a period in the 60's and early 70's, many divisions fell behind the leaders in their field. For the last six years, therefore, Weston has expended large amounts in catching up. Again in 1977, over 100 million dollars in capital and capital equivalent lease commitment was spent for the replacement, modernization or expansion of physical facilities.

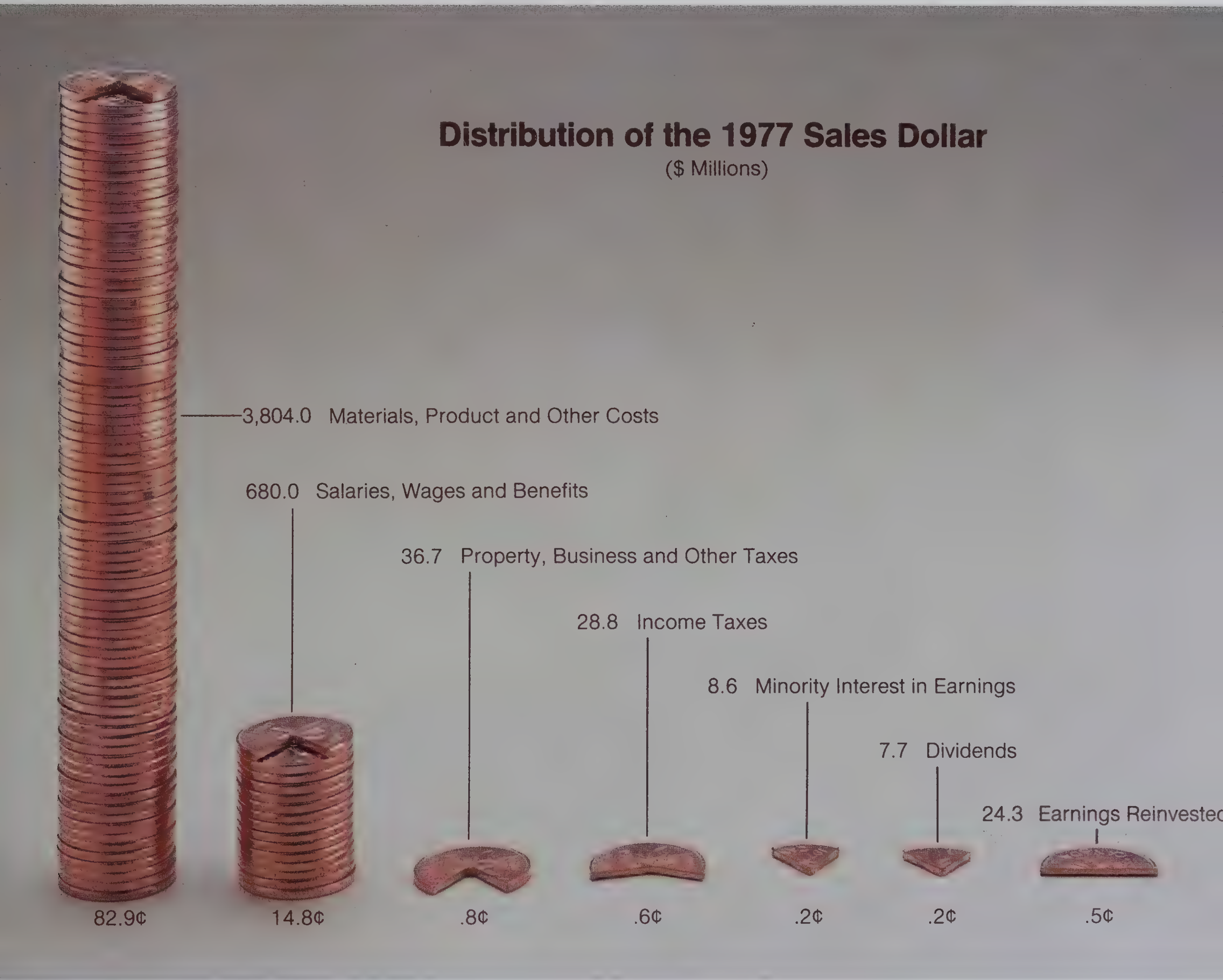
In 1977, the Weston group of companies employed 56,000 persons of whom about 35,000 were full-time employees. The total remuneration to all employees, including benefits such as paid vacations and holidays, pensions and life and health insurance exceeded $680 million, of which over $120 million related to the benefit package. Thus in addition to the essential products they make and the services they provide, this group also contributes a very significant amount of purchasing power to the communities in which they reside. Many are also serving their own and wider communities through direct involvement and leadership in community affairs and are encouraged by the Company in this regard.

Through its direct support of government revenues and national economic objectives, Weston also serves the community. In 1977 the group expended over $65 million in sales, import, realty, business and other taxes payable to all levels of government. In addition, the group collected on behalf of various governments, approximately $200 million of payroll, sales and other taxes. Its export sales of some $180 million, primarily from the forest products and fisheries divisions, contributed positively to Canada's balance of trade position. The Weston group has also been vitally concerned with environmental enhancement and the elimination of pollution.

The chart below indicates the proportions in which the income from the 1977 sales dollar was distributed to employees, to governments, to shareholders, and the amount of earnings reinvested to enable the Weston companies to continue to progress and serve in the years to come.

Distribution of the 1977 Sales Dollar

($ Millions)




FFV
McCormicks
Dietrich

Food Processing

The Food Processing Division of Weston's is collectively one of the largest and most profitable businesses of its type in Canada. It is now established in four major categories, each one of which commands a leadership position on a truly national basis. Comparative sales and operating income in 1977 and 1976 were as follows:

($ millions)	1977	1976
Sales	550	542
Operating income (before interest and taxes)	31.7	30.9

Bakery and Flour Milling

Weston's have been bakers in Canada since 1882. What was then a small bakery on Bathurst Street in Toronto has grown into an operation with 13 bakeries and 2 flour mills in major cities across Canada producing some 400 million pounds of bakery products for consumption at home and for overseas markets annually. Growth was achieved through a series of small acquisitions and internal expansion. The operations provide over 3,000 jobs for Canadians in all provinces with payroll and other benefits in excess of $52 million annually. Over the years its facilities have continually been expanded and improved to meet consumer demands for better product at the lowest possible cost.

In 1977 bakery and milling sales were affected by a strike at Stuart's in Montreal as well as by a generally lower consumption of white bread, partially offset by increased sales of variety breads and other products. At $158 million, sales were slightly higher than in 1976. Earnings were adversely affected by the strike and by the start-up costs of the new bakery facility in Vancouver. Higher costs of flour, energy and wages were absorbed due to delays encountered in gaining A.I.B. approval for price adjustments.

Biscuit and Confectionery

The second product line of Weston's originated in 1911 in Toronto and has grown to include eight production plants in Canada and the United States, producing a wide variety of crackers and snack biscuits, sweet biscuits, chocolate enrobed products, ice cream sandwich biscuits, ice cream cones and confectionery. The operations in Canada compete for first place in biscuit and candy volume, while those in the United States are fourth in size. There are approximately 3,600 employees with payroll and other benefits of over $46 million per year.

The biscuit and confectionery operations in 1977 produced a marginal increase in sales of 2.4% with a decrease in earnings in Canada and a further improvement in earnings in the United States. The extensive capital expenditure program carried out over the last few years in the United States coupled with constantly improving management skills have taken profit levels to a highly acceptable level of sales. A similar program is now well under way in Canada. It is our intention to expand our U.S. business while at the same time we progressively re-equip our factories in Canada.

Chocolate and Dairy

The Neilson operations originated in 1893 in Toronto and now manufacture a wide variety of chocolate and ice cream products. The business was acquired by Weston in 1947 and has expanded to the point where Neilson products are distributed through 75,000 outlets in Canada and Neilson has become a household word for quality in chocolate products and ice cream. More recently Weston acquired the Donlands group of dairies at Guelph, Ottawa and Toronto. In all, about 1,400 jobs are provided by the Chocolate and Dairy operations with annual payrolls of more than $21 million.

Sales for 1977 at $117 million reflected a gain of 7.5% while earnings increased at the same rate. Consumer resistance to the increase in the price of chocolate bars necessitated by the onerous Ontario Provincial Sales Tax and the substantial rise in price of cocoa and sugar resulted in a lowering of volume and earnings from chocolate products. At year's end, however, a trend toward recovery was noted. Ice cream volume and earnings were improved.

Food Specialties

A sugar refinery constructed in Oshawa, Ontario in 1972 and operating under the name of Westcane Sugar provides sugar in various forms for other parts of the Food Processing Division and for many other food and beverage organizations as well as packaged sugar for distribution through the Wholesale and Retail Division. A facility for processing frozen citrus concentrates was acquired in 1971 and its products are gaining wider acceptance throughout Canada each year. The Bowes division, acquired in 1972, produces a wide range of ingredients for the bakery, confection and dairy industries. Over 800 full-time jobs are provided by Food Specialties with annual payroll of $12 million per year. The major facilities are relatively new and a program of further investment is ongoing.

Sales of $129 million increased marginally over 1976 and earnings reflected a modest improvement. The sugar refining operations continued to progress — sales volume and earnings were both increased, and efficiency at the refinery continued to improve. The citrus products operation is undergoing some restructuring but achieved encouraging results in 1977. The Bowes group continued its very satisfactory performance of previous years.


Brunswick
Connors
Packers
Bic
CLOVER LEAF

Fisheries

The Fisheries Division is engaged in fishing and the canning, freezing, processing and packaging of fish and fish products, with facilities primarily on the east and west coasts of Canada. Specific operations, facilities and products are summarized on Page 15. Sales and operating income for the past two years are as follows:

($ millions)	1977	1976
Sales	261	211
Operating income (before interest and taxes)	21.4	11.8

Sales of the Division increased 24% to $261 million (5.7% of consolidated net sales). Both British Columbia Packers Limited on the west coast, and Connors Bros., Limited on the east coast, enjoyed substantial increases in sales and earnings, reflecting a return to more normal industry landings of fish, as well as improved prices and efficiencies.

British Columbia Packers Limited traces its origin back to 1870 when the first salmon cannery was opened on the banks of the Fraser River near New Westminster, British Columbia. In 1902, the British Columbia Packers Association was formed with 42 canneries and 12 cold storages. In 1928 following a number of acquisitions, the present company was formed. Subsequently, the United States operation of Coast Oyster Company in Washington and Nelbro Packing Company in Alaska were acquired. British Columbia Packers became a part of the Weston group of companies in 1959. Nelson Bros. Fisheries Limited was acquired in 1960 and in 1969 was amalgamated with British Columbia Packers to form an organization unparalleled in the industry today.

Although built primarily on the basis of the salmon resource, the company has pioneered the production of British Columbia herring roe for the Japanese market and harvests and processes other species such as herring, halibut, groundfish and shellfish, thus broadening its activities in an otherwise highly seasonal industry. This contributes to a more balanced utilization of resources and to steadier employment. To illustrate the company's significant involvement in the economy and in society, over $60 million in value of fish was purchased from over 4,000 fishermen and wages and salaries in excess of $40 million were paid to 3,500 employees in 1977. Export sales of approximately $85 million made a significant positive contribution to Canada's balance of payments position.

In 1977, sales of British Columbia Packers Limited reached a record level of $213 million and net income at $8.3 million was the second highest in its history. Improved results were largely attributable to favourable market conditions, coupled with satisfactory production levels for the company's principal products during an average year for salmon landings in the industry. As the long-term outlook is for increasing supplies of salmon, the company's heavy involvement in this resource is being maintained at the same time that other resources are being developed. The roe herring market has continued to expand and the company has upgraded its facilities in this area. As a result of Canada's declaration of the 200 mile Fisheries Management Zone, the supply of groundfish will increase and suitable markets will be available in due course for west coast fisheries.

During 1977 the company terminated its operations on the east coast of Canada, selling its groundfish operations to outside interests and leasing its herring plants to an affiliated company, Connors Bros., Limited. The United States operations in salmon, groundfish and shellfish were generally successful in 1977. The shrimp processing facility in Texas was proven to be uneconomic and was sold during the year. The rapeseed operation, in which British Columbia Packers is a minority partner, continued its unsatisfactory performance due to depressed prices and discriminatory freight rates.

Connors Bros., Limited originated as a small cannery at Black's Harbour in New Brunswick, set up by Patrick and Lewis Connors, and has become the largest processor of sardines in North America, and a major processor of other Atlantic ocean seafood and fish products. The company became a member of the Weston group in 1967. In addition to its facility at Black's Harbour, Connors Bros. operates six other freezing and canning plants in the Maritimes. Its markets extend throughout many parts of the world, but the most important are Canada, the United States, Europe and the West Indies. It provides employment for 3,400 people and annual payroll and employee benefits of over $13 million. Its export sales of some $30 million contribute to the improvement of Canada's balance of payments position.

In 1977 Connors Bros., Limited increased its sales from $34 million to $48 million. The increase in sales is largely attributed to a sharply increased demand for frozen herring fillets. Earnings were substantially increased over the reduced levels of 1976. More favourable price levels and the devaluation of the Canadian dollar were helpful contributors to the improvement in earnings.


"Babies Only, Please"
WhiteSwan
E.B.EDDY
SwansDown
Deluxe
paper sponge

Forest Products

The Forest Products Division produces and distributes in Canada, United States and overseas, wood pulp, dimension lumber and a wide variety of industrial and technical fine papers and household tissue papers. Production facilities are concentrated mainly in north-eastern Ontario and western Quebec. Specific operations, facilities and products are summarized on Page 15. A comparative summary of sales and operating income follows:

($ millions)	1977	1976
Sales	224	251
Operating income (before interest and taxes)	1.6	5.5

Included in the 1976 figures are the packaging operations of Somerville Industries Limited which were sold at the end of 1976. On a strictly comparable basis, which excludes the 1976 Somerville sales and income, the Forest Products group enjoyed a 23% increase in sales to a record level of $224 million. Operating income improved from a loss of $0.5 million to a gain of $1.6 million but was far from satisfactory.

The increase in sales was due mainly to expansion of the lumber operations with generally more favourable market conditions. Markets for the pulp and paper operations were depressed throughout the year, but improved somewhat during the last quarter. The continuing struggle to regain the domestic fine and specialty paper markets lost in 1975-76 to American mills was however, assisted by the devaluation of the Canadian dollar. This loss of market was occasioned by the five month strike at the Ottawa-Hull location which forced customers to seek alternative sources of supply.

The origins of the Forest Products Division reach back to 1851 when the E. B. Eddy Company was founded in Hull, Quebec, across the Ottawa river from Canada's capital city. During its first 75 years, it developed a wide range of paper products and became Canada's leading supplier of wooden matches.

The match business was sold in 1928. The Eddy operation expanded on both sides of the river and presently operates at the original site, nine paper machines and one paperboard machine, capable of producing 222,000 tons per year of a wide variety of high quality fine papers and paperboard, as well as household and industrial tissue, towels, serviettes and facial tissue. The company became a part of the Weston group in 1962. White pine lumber was added to the product line in 1965 on acquisition of J. E. Boyle Limited at Davidson, Quebec. Additional sawmills at Nairn Centre and Timmins, Ontario were subsequently acquired. In 1969, Brown Forest Industries Limited (later amalgamated with Eddy) and also Eastern Fine Paper Inc. were acquired. The former provided a sulphate pulp mill of 226,000 tons per year capacity as well as facilities capable of producing 45,000 tons per year of industrial and technical grades of paper. The mill, located at Espanola, Ontario, originated in 1895. It subsequently had many additions and was almost completely rebuilt in 1967. The Eastern Fine Paper mill at Brewer, Maine, is capable of producing some 46,000 tons per year of highly specialized grades of business and printing papers. Eastern also acts as sales agent for the Eddy papers in the United States. The Espanola mill and the Nairn Centre operations, recently expanded, are the largest employers in their communities and employ some 1,600 people with annual payroll and related benefits in excess of $30 million. Eastern Fine Paper employs over 400 people with payroll and benefits of about $6 million. At the Ottawa-Hull, Boyle and McChesney operations, there are approximately 2,500 employees with total payroll and benefits of approximately $45 million.

The pulp mill at Espanola was operated at near capacity throughout the year due largely to the ability to use much of the pulp produced in the paper operations at Espanola and Ottawa-Hull. During the year the $10 million first stage of installation of a new oxygen bleaching process for pulp was completed, resulting in a significant reduction in both operating costs and water pollution. The improvements in earnings from these factors were, however, more than offset by depressed prices resulting from the continued international oversupply of pulp.

At Ottawa-Hull, the rebuild of the No. 3 paper machine, converting it to the most modern technology in tissue paper making, was completed in the summer of 1977. Its new product, introduced in the fall under the "Swan's Down" name, has received very favourable customer acceptance. The Eastern Fine Paper operation at Brewer, Maine, shut down one of their fine paper machines early in the year and through improved sales mix and dramatic cost reduction programs, achieved a profitable level for the last three quarters of the year. The strengthening of the lumber market along with improved productivity in the Nairn sawmill, and the start-up of a new spruce sawmill at Davidson, Quebec, resulted in the most profitable year to date in the wood products operation. The outlook for these operations in 1978 is positive.

Westfair
Atlantic

Wholesale and Retail

The Wholesale and Retail Division is the largest of the four divisions of Weston and is a leading distributor of food and other products through independent, franchised, as well as corporate retail outlets in Canada and the United States. Its businesses are all operated under the corporate grouping of Loblaw Companies Limited, one of the largest food distribution companies in North America. Operating results for the past two years are summarized below:

($ millions)	1977	1976
Sales	3,735	3,525
Operating income (before interest and taxes)	47.3	42.4

Sales increased $210 million or 6.0% over 1976 to $3,735 million — 81.4% of consolidated net sales. Operating income improved 12% to $47.3 million. Net earnings are substantially improved following the closure in 1976 of major loss-making operations.

Canadian Operations

The Canadian operations in the West are conducted by Kelly, Douglas & Company, Limited, headquartered in Vancouver and its wholly-owned subsidiary Westfair Foods Ltd. with its operating base in Winnipeg. Kelly Douglas traces its beginnings back to the partnership of Messrs. Kelly and Douglas formed in 1896 to supply provisions to the Yukon gold miners. Since that time, it has developed into the second largest food distributor in British Columbia and Alberta, mainly through franchises such as SuperValu.

Early in 1977 Kelly Douglas, through Westfair, acquired from National Tea Co. substantial wholesale food distribution facilities in Denver, Colorado. Westfair Foods Ltd., which Kelly Douglas acquired in 1975, is an aggregation of a number of companies in Western Canada originating at or near the turn of the century that had developed into an important wholesaler of food products in the Prairie provinces. In addition to their interests in food distribution, Kelly Douglas and Westfair also operate wholesale and retail drug distribution facilities, a dairy, an egg grading and meat cutting plant, and a coffee and tea distribution company. The Western Canada operations employ 4,900 full-time and 2,700 part-time employees with total payroll and other employee benefits totalling $92 million in 1977.

Sales of Kelly Douglas consolidated exceeded $1 billion in 1977 for the first time — reaching $1,027 million from $939 million in 1976. After tax earnings before extraordinary items increased from $8.2 million to $9.6 million. An extraordinary gain of $0.2 million from sale of the catering operations brought the 1977 net earnings to $9.8 million.

In Eastern Canada, wholesale operations are conducted by National Grocers in Ontario and by Atlantic Wholesalers in the Maritimes. Loblaws and Zehr's operate corporate retail stores in Ontario.

Mr. T. P. Loblaw, who opened his first store in Toronto in 1900, later pioneered the self-serve grocery store during the 1920's, and extended the new concept Loblaw stores throughout Ontario and into Western New York State. National Grocers had its beginnings in 1925 when a number of independent wholesalers combined to form a strong wholesale organization capable of serving well the independent and franchised food retailers in Ontario and have continued in a position of leadership in that field. Atlantic Wholesalers began as a hay and feed business in Sackville, New Brunswick, in 1903, and progressively expanded into general food wholesaling, serving both independent and franchised stores in the Maritime provinces.

Sales in Eastern Canada rose from $1.4 billion in 1976 to $1.5 billion in 1977. On a more comparable basis, after eliminating sales of operations disposed of in 1977, the increase was approximately 13%. Earnings showed a significant improvement. There were 7,900 full-time and 7,200 part-time employees in 1977, with total payroll and employee benefits of $158 million.

United States Operations

The U.S. operations are comprised of the four retail food divisions of National Tea Co. in New Orleans, St. Louis, Indianapolis and Minneapolis, together with the wholesale operation of Western Grocers Inc. in Denver and wholesale and retail distribution operation of Peter J. Schmitt Co., Inc. centred in Buffalo.

National Tea Co. originated in Chicago with a National Food store opening in 1899 and developed into one of the foremost retail food chains in the U.S., operating in the mid-west and southern regions. After recently eliminating loss-making divisions, National Tea has aggressively followed a program of remodelling and building new large stores. Peter J. Schmitt began in the 1880's with the opening of a grocery store in Buffalo. Further stores were added and in 1925 entry was made into food wholesaling which ultimately became the major business. Recently the Schmitt operation was combined with the Loblaw retail stores in Western New York.

Sales of the United States operations in 1977 were $1.3 billion, compared with $1.2 billion in 1976, an increase of 9.7%. Earnings were significantly improved, largely due to the closure in 1976 of the Chicago operations of National Tea and certain operations of Peter J. Schmitt. The United States operations employed 7,300 full-time and 5,200 part-time persons in 1977 with payroll and employee benefits amounting to $170 million.

Principal Operations

Food Processing

Principal Subsidiaries and Divisions

Bakery & Flour Milling
- Weston Bakeries Limited
  - Lane's Bakeries Limited
- Stuart Limited
- Wittich's Bread Limited
- Soo Line Mills (1969) Limited
- McCarthy Milling Company Limited

Biscuit & Confectionery
- InterBake Foods Limited
- Weston Foods Limited
- McCormick's Limited
  - Imperial Cone Company
  - Bates Packaging Services Limited
- Paulin Chambers Co. Ltd.
- Marven's Limited
- Interbake Foods Inc. (U.S.)
  - Richmond, Va.
  - Tacoma, Wash.
  - North Sioux City, S.D.
  - Battle Creek, Mich.
  - Dairy Division, Chicago, Ill.

Chocolate & Dairy
- William Neilson Co. Limited
- Donlands Dairy Co. Ltd.
- Clark Dairy Limited

Food Specialties
- Bowes Co. Ltd.
- Chocolate Products Co. Ltd.
- McNair Products Co. Ltd.
- Rose & Laflamme Co. Ltd.
- Watt & Scott Inc.
- Westcane Sugar Limited
- Niagara Food Products Company Ltd.

Facilities

Bakery & Flour Milling

Bakeries in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Essex, Kitchener, Toronto, Kingston, Kirkland Lake, Montreal and Moncton

Flour mills in Streetsville, Ontario and Winnipeg.

Warehouses in principal cities of Canada.

Biscuit & Confectionery

Biscuit and confectionery plants in Winnipeg, London, Longueuil, Moncton in Canada and Richmond, Va., Tacoma, Wash., North Sioux City, South Dakota and Battle Creek, Mich. in the United States. Sales and distribution centres or distributors in principal cities of Canada and United States.

Chocolate & Dairy

Chocolate production facilities in Toronto. Ice cream plant in Toronto and dairies in Beachville, Guelph, Ottawa and Toronto, Ontario.

Food Specialties

Manufacturing and processing plants in Toronto, Hamilton, Montreal, and Colborne, Ontario. Warehouses in principal Canadian cities. Refinery and warehouse in Oshawa, Ontario. Citrus products processing plant in Stoney Creek, Ontario.

Products and Services

Bakery & Flour Milling

Produces a wide variety of bread, rolls, cakes and other bakery products under national brand and private label for distribution to food stores and catering outlets in all provinces of Canada. Produces flour and mill feeds for internal use and domestic and export markets.

Biscuit & Confectionery

Manufactures and distributes a broad range of sweet biscuits, crackers, ice cream cones, confections and candies throughout Canada and in the United States.

Chocolate & Dairy

Produces and distributes throughout Canada a wide range of chocolate bars and boxed chocolates, chocolate coatings, cocoa and specialty items. Also manufactures bulk and packaged ice cream and frozen novelties, and processes milk and associated products.

Food Specialties

Manufactures a variety of ingredients and products for the baking, confection, dairy and fountain industries. Packages and distributes a full line of dried and glacé fruits, nuts, cereals, fruits, vegetables and health foods. Produces liquid bulk and granulated bulk and packaged white sugars and frozen citrus products.

Fisheries

Principal Subsidiaries

British Columbia Packers Limited
Rupert's Certi-Fresh Foods, Inc.
Connors Bros., Limited
H. W. Welch, Limited
Lewis Connors & Sons Limited

Facilities

British Columbia Packers Limited has extensive canning, freezing and processing facilities on the west coast of Canada and subsidiary operations in Alaska, Washington, Illinois and California.

Connors has similar facilities in the Bay of Fundy area including a can manufacturing plant.

Products and Services

British Columbia Packers group is a major supplier of Pacific coast salmon and a wide variety of fresh, frozen, canned and prepared seafoods, as well as fish meal and oil. Connors group is Canada's leading packer of sardines and a large processor of Atlantic Ocean seafoods and fish products.

Forest Products

Principal Subsidiaries

Eddy Paper Company Limited
E. B. Eddy Forest Products Ltd.
Rudolph McChesney Lumber Company Limited
Eastern Fine Paper, Inc. (U.S.)

Facilities

Extensive timber limits and wood harvesting facilities in Ontario and Quebec. Pulp mill in Espanola, Ontario and paper mills in Espanola and in Hull, Quebec and Brewer, Maine. Sawmills in Davidson, Quebec and Nairn Centre and Timmins, Ontario.

Products and Services

Manufactures and distributes fine, specialty and kraft papers for printing, converting, packaging and wrapping; paper-board, kraft pulps and lumber, tissue, other household and industrial paper products.

Wholesale and Retail

Principal Subsidiaries and Divisions

Canada
Loblaw Companies Limited
Intersave Buying & Merchandising Services
Foodwide of Canada (1977) Ltd.
Loblaws Limited
Loblaws Ontario
Atlantic Wholesalers
National Grocers
Zehr's Markets
Kelly, Douglas & Company, Limited
SuperValu Stores (B.C.)
Isaacs Pharmacy Ltd.
Dickson's Food Services Ltd.
Foremost Foods Ltd.
W. H. Malkin Ltd.
Westfair Foods Ltd.
Western Grocers
Dominion Fruit
O.K. Economy Stores
Shelly Western
Econo-Mart
Loblaw West
Western Grocers, Inc. (U.S.)

United States
National Tea Co.
Peter J. Schmitt Co., Inc.

Facilities

Canada

Warehouses in strategic centres with approximately 350 supermarkets across Canada and 55 retail drug stores in Western Canada.

United States

Approximately 260 supermarkets located primarily in central United States with warehouses in major centres.

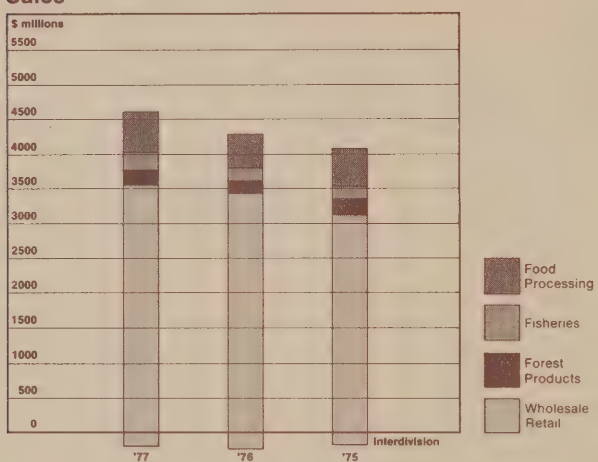
Products and Services

Wholesale and retail marketing of food and other products throughout Canada and in central United States.

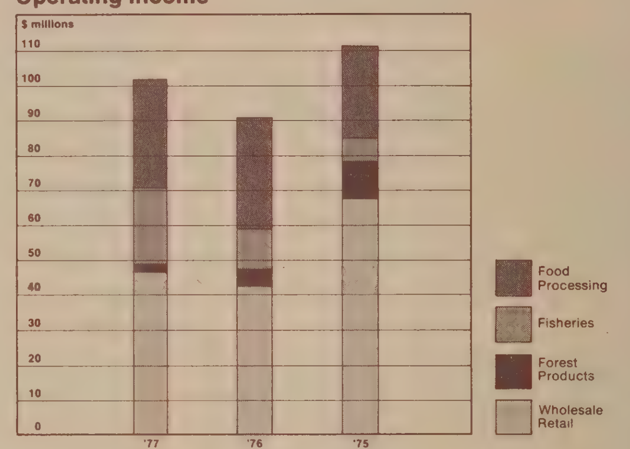

PAIN
Weston
BREAD
Swan's Down
White Swan
CLOVER LEAF
SALT ADDED
SANTA ROSA
FRUEHAUF
3310-2

Financial Review

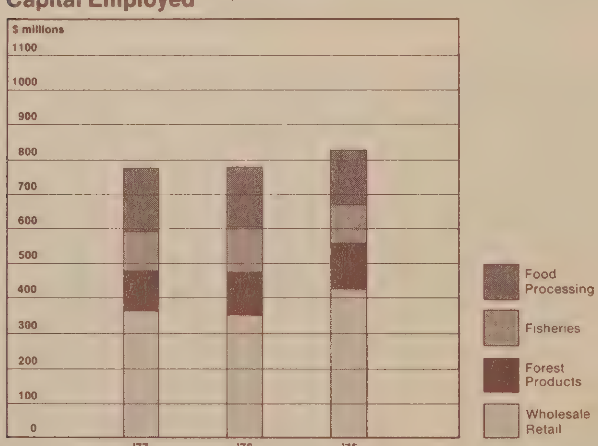
Sales



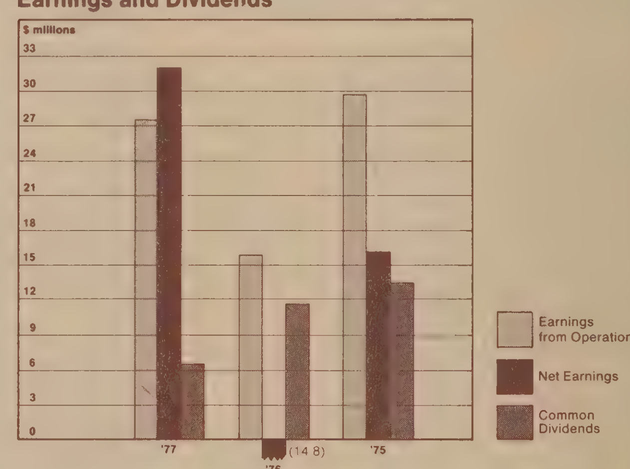
Operating Income



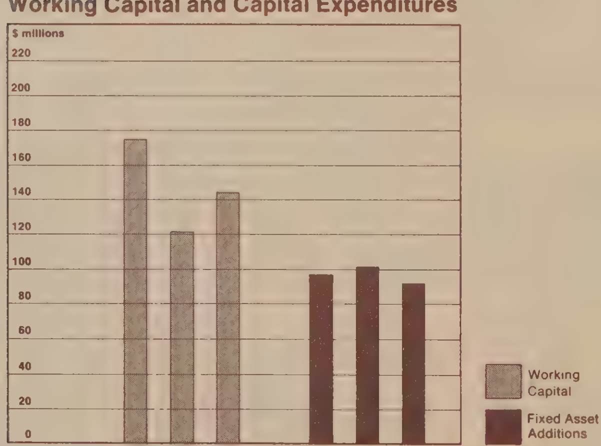
Capital Employed



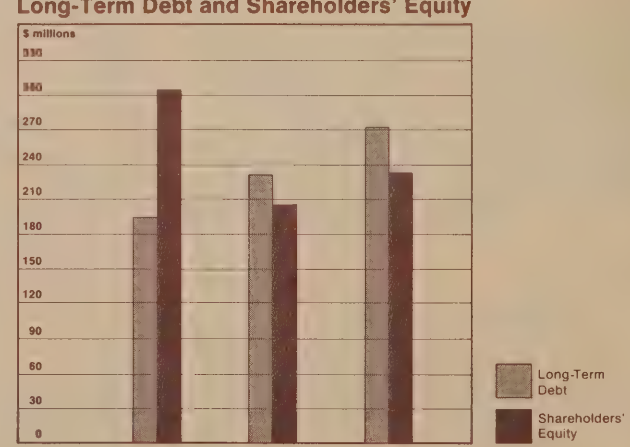
Earnings and Dividends



Working Capital and Capital Expenditures



Long-Term Debt and Shareholders' Equity



Summary of 1977 Results

We present herein a brief review and a graphical representation highlighting some of the more significant elements of the 1977 operating and financial results including commentary on performance of the divisions.

Sales

Net sales in 1977 amounted to $4,590 million, an increase of $245 million or 5.6%. All divisions showed increased sales on a comparable basis. Fisheries enjoyed a substantial volume improvement with Wholesale and Retail gaining real growth of some 9.0%, based on sales of comparable operating units.

Operating Income

Operating income improved 12.6% from $90.6 million to $102.0 million. On a strictly comparable basis, after eliminating the profit from the Somerville operation in Forest Products sold in 1976, the increase would be 19.2%. Food Processing bettered its 1976 record with improvement in all segments except the Canadian biscuit and confectionery operations. Fisheries enjoyed a banner year with strong demand and good supply. Forest Products continued to suffer from low domestic and international prices for paper and pulp, but bettered its performance on a comparable basis over the previous year. Wholesale and Retail showed continuing growth in its profitable operations in addition to the elimination of losses.

Capital Employed

Total Capital employed, representing total assets used less current non-interest bearing trade obligations, was $778 million at year-end 1977 as compared with $781 million at year-end 1976. Just under half of the capital employed at year-end was devoted to the food distribution business, where substantially increased returns are now being developed. Just less than one-quarter is deployed in food processing, while some 15% of capital employed is in each of the fisheries and forest products operations. This asset deployment provides an important balance for overall performance while providing scope for improving overall return through reinvestment in the profitable growth areas.

Earnings and Dividends

Earnings from continuing operations increased 74% from $15.8 million to $27.5 million ($1.33 to $2.36 per common share). These earnings included $3.8 million resulting from the 3% inventory tax allowance. The loss from discontinued operations of $24.1 million in 1976 had no counterpart in 1977. Extraordinary items reflected a net gain of $4.5 million in 1977 as compared with a loss of $6.5 million in 1976 and are detailed in Note 4 to the financial statements.

Consolidated net earnings for the year amounted to $32.0 million as compared with a consolidated net loss of $14.8 million in 1976 — a total change of $46.8 million. On a per share basis, earnings were $2.77 against a loss of $1.44.

Dividends declared in 1977 on the common shares amounted to $6.6 million as compared with $11.7 million in 1976. The reduced quarterly rate of 15¢ per share which commenced with the dividend paid on January 1, 1977, was continued throughout 1977 — a year of rebuilding after the extremely heavy losses of 1976. The regular rates of dividend were maintained on all series of preferred shares.

Working Capital

Working capital increased substantially during the year — from $120.8 million to $175.8 million, an increase of $55.0 million as compared with a decrease in 1976 of $23.6 million. Among the components of working capital, current debt maturities in total were reduced by $105.2 million (including a reduction of $79.8 million in bank advances and notes payable) to $151.0 million from a total of $256.2 million at the previous year-end. Operations contributed $95.4 million to working capital sources as compared with $75.7 million last year. Proceeds from an issue of preferred shares provided $75.0 million, while new long-term debt financing of $86.5 million and proceeds from sale of investments, fixed assets and miscellaneous items totalling $42.9 million completed the total sources of working capital of $299.8 million.

In addition to the net increase in working capital, these funds were applied to, amongst other uses: purchase of fixed assets of $98.3 million; reduction of long-term debt of $123.5 million; losses from closures of operations of $8.3 million, and dividends (including those paid to minorities of subsidiaries) of $11.0 million.

Capital Expenditures

Fixed asset additions in 1977 were $98.3 million, compared with $100.2 million in 1976. The greater portion of this expenditure, $61 million, related to the renovation and expansion of distribution centres, retail stores, and other facilities of the Wholesale and Retail division. The first stage of the new oxygen bleaching process for pulp at Espanola, costing just under $10 million in total, was fully completed in 1977. In addition to substantially reducing water pollutants, this new process results in a significant reduction in bleaching costs. Some $2.5 million was also spent in 1977 for completion of the rebuilding of tissue paper machine capacity at Hull, Quebec, and $1.3 million in expansion of the sawmill at Davidson, Quebec. British Columbia Packers Limited expended over $7 million in replacement and expansion of fish handling and processing facilities, while some $9 million was spent for renewing facilities plus some modest expansion of capacity in the various food processing businesses. Depreciation written in 1977 was $50.1 million as compared with $45.9 million in 1976.

Long-Term Debt and Shareholders' Equity

Long-term debt was reduced substantially and maturities extended during the year. Current maturities decreased from $14.7 million to $10.3 million, while the long-term portion decreased from $232.7 million to $195.7 million — a further reduction of $37.0 million following the reduction of $37.6 million in 1976. This reduction and a restructuring of the remaining long-term debt in the year has resulted in a levelling of and a substantial decrease in the funding requirements to meet maturities in the next five years, which have been reduced to $93.5 million from $154.2 million at the previous year-end. Late in 1977, the Company issued $75 million of preferred shares carrying a floating rate of dividend tied to, but substantially less than, bank prime interest rate. The proceeds were used to retire short and long-term debt obligations — $47.5 million directly and $27.5 million indirectly through investment in similar shares of Loblaw Companies Limited. Shareholders' equity increased $98.9 million during the year to $305.2 million. The $75 million preferred share issue has no substantial effect upon the rate of return on the common shareholders' equity, and, by reason of the favourable preferred dividend rate and the improved borrowing position resulting from the strengthened financial position, will likely have a long-term beneficial effect upon the availability of earnings for common dividends.

Corporate Changes

Loblaws Limited acquired the operating assets of Atlantic Wholesalers Limited at the beginning of 1977 and is continuing the operation under the name Atlantic Wholesalers. The shares of Cal Van Canus Caterers Limited (catering subsidiary of Kelly Douglas) were sold and the sale of the distribution centre, formerly operated by National Tea Co., was completed. The assets of the Flexible Packaging division of E. B. Eddy Forest Products Ltd. located in Hamilton, Ontario, the east coast operations of British Columbia Packers Limited (except a portion which was leased to Connors Bros., Limited), nine of the ten stores of the Dionne Limited chain of food markets in Quebec and the shares of G. Tamblyn, Limited and subsidiaries operating in Eastern Canada were sold during the year. The Company also disposed of its investment in M. Loeb, Limited. The various operating companies in the food distribution field in the Buffalo area were merged and continue under Peter J. Schmitt Co., Inc. The Company acquired the assets of Niagara Food Products, Limited at the end of the year and, at the beginning of 1978, the assets of the Bowes and the Donlands groups of companies.

Consolidated Statements of Earnings and Retained Earnings

George Weston Limited
Year ended December 31, 1977
(in thousands of dollars)

Consolidated Statement of Earnings	**1977**	1976
SALES AND OTHER INCOME		
Sales (note 3)	**$ 4,590,090**	$ 4,344,849
Investment income	**5,420**	4,701
	4,595,510	4,349,550
OPERATING EXPENSES		
Cost of sales, selling and administrative expenses before the following items	**4,385,081**	4,159,491
Net rentals on long-term leases	**58,364**	53,543
Depreciation	**50,101**	45,919
	4,493,546	4,258,953
OPERATING INCOME	**101,964**	90,597
Interest on long-term debt	**18,819**	20,535
Other interest expense	**18,319**	24,792
	37,138	45,327
Earnings before income taxes	**64,826**	45,270
Income taxes (note 2)	**28,764**	22,122
Earnings before minority interest	**36,062**	23,148
Minority interest	**8,585**	7,348
EARNINGS FROM CONTINUING OPERATIONS	**27,477**	15,800
Loss from discontinued operations (note 3)		(24,136)
	27,477	(8,336)
Extraordinary items (note 4)	**4,568**	(6,427)
NET EARNINGS (LOSS) FOR THE YEAR	**$ 32,045**	$ (14,763)
PER COMMON SHARE		
Earnings from continuing operations	**$ 2.36**	$ 1.33
Loss from discontinued operations		$ (2.19)
Extraordinary items	**$ .41**	$ (.58)
Net earnings (loss) for the year	**$ 2.77**	$ (1.44)

Consolidated Statement of Retained Earnings		
RETAINED EARNINGS AT BEGINNING OF YEAR	**$ 163,539**	$ 191,185
Net earnings (loss) for the year	**32,045**	(14,763)
	195,584	176,422
Dividends declared		
Preferred shares	**1,142**	1,147
Common shares	**6,612**	11,736
	7,754	12,883
RETAINED EARNINGS AT END OF YEAR (note 14)	**$ 187,830**	$ 163,539

Consolidated Balance Sheet

George Weston Limited
(Incorporated under the laws of Canada)
As at December 31, 1977
(in thousands of dollars)

Assets	1977	1976
CURRENT ASSETS		
Cash and short-term investments	**$ 8,712**	$ 18,529
Accounts receivable (note 5)	**159,793**	149,710
Receivable from sale of subsidiaries' shares and assets		36,374
Properties held for sale, at the lower of cost and net realizable value	**18,873**	37,126
Inventories (note 6)	**455,203**	456,356
Prepaid expenses	**14,148**	14,693
	656,729	712,788
INVESTMENTS (note 7)	**35,890**	32,062
FIXED ASSETS (note 8)	**435,761**	420,298
GOODWILL arising on consolidation of subsidiaries, less amortization	**14,127**	16,611
DEFERRED CHARGES	**3,499**	7,675
	$ 1,146,006	$ 1,189,434

Approved by the Board

W. Galen Weston, Director

W. Garfield Weston, Director

Liabilities	**1977**	1976
CURRENT LIABILITIES		
Bank advances and notes payable (note 9)	**$ 140,684**	$ 220,523
Accounts payable and accrued liabilities (note 10)	**304,540**	315,852
Taxes payable	**23,723**	18,268
Dividends payable	**1,653**	1,653
Mortgage payable on property held for sale		20,955
Long-term debt payable within one year (note 11)	**10,276**	14,705
	480,876	591,956
LONG-TERM DEBT (note 11)	**195,663**	232,655
OTHER LIABILITIES (note 12)	**14,872**	11,772
DEFERRED INCOME TAXES	**33,698**	35,943
DEFERRED REAL ESTATE INCOME	**20,086**	18,615
	745,195	890,941
MINORITY INTEREST IN SUBSIDIARIES	**95,610**	92,218
Shareholders' Equity		
Capital stock (note 13)	**117,371**	42,736
Retained earnings	**187,830**	163,539
	305,201	206,275
	$ 1,146,006	$ 1,189,434

Consolidated Statement of Changes in Financial Position

George Weston Limited
Year ended December 31, 1977
(in thousands of dollars)

	1977	1976
SOURCE OF WORKING CAPITAL		
Operations		
Earnings before minority interest	$ 36,062	$ 23,148
Depreciation	50,101	45,919
Income taxes not requiring cash	11,675	7,027
Other	(2,445)	(435)
Cash flow from operations	95,393	75,659
Financing		
Proceeds from issue of preferred shares	75,000	220
Increase in long-term debt	86,486	29,485
	161,486	29,705
Other items		
Proceeds from sale of subsidiary companies and investments (net of notes receivable and subsidiaries' working capital)	7,559	18,087
Proceeds from sale of fixed assets	35,349	76,895
	42,908	94,982
Total sources of working capital	299,787	200,346
USE OF WORKING CAPITAL		
Discontinued operations		27,259
Extraordinary losses from store operations, leasehold terminations and related costs during close-down periods	8,319	14,268
	8,319	41,527
Reinvestment		
Purchase of fixed assets	98,320	100,239
Net increase (reduction) in investments and sundry items	1,467	(82)
	99,787	100,157
Financing		
Reduction in long-term debt	123,478	59,441
Purchase of minority interest	2,147	5,863
	125,625	65,304
Dividends		
To shareholders	7,754	12,883
To minority shareholders in subsidiary companies	3,281	4,118
	11,035	17,001
Total uses of working capital	244,766	223,989
INCREASE (REDUCTION) IN WORKING CAPITAL	55,021	(23,643)
Working capital at beginning of year	120,832	144,475
WORKING CAPITAL AT END OF YEAR	$ 175,853	$ 120,832

Notes to Consolidated Financial Statements

George Weston Limited
December 31, 1977

1. Summary of Significant Accounting Policies

(a) Basis of consolidation
The consolidated financial statements include the accounts of the Company and all subsidiaries. The effective interest of George Weston Limited in the equity share capital of principal subsidiaries which are not substantially 100% owned by the George Weston group is as follows at December 31, 1977:

British Columbia Packers Limited	82%
Loblaw Companies Limited	87%
Kelly, Douglas & Company, Limited	73%
Loblaws Limited	87%
National Tea Co.	73%

(b) Amortization of goodwill arising on consolidation of subsidiaries
The Company follows the policy of amortizing, over periods not exceeding twenty years, the net difference between cost of the investments in subsidiaries and the estimated fair value of their net assets at the dates of acquisition. Total amortization for 1977 is $1,291,000 (1976 — $840,000) and is included in "Cost of sales, selling and administrative expenses".

(c) Inventories
Retail store inventories are stated at the lower of cost and net realizable value less normal profit margin. Other inventories are stated principally at the lower of cost and net realizable value.

(d) Deferred foreign exchange adjustment
All U.S. balances have been translated at a rate approximating the current rate at each year-end. The net difference on the translation of the Company's equity in U.S. subsidiaries and the long-term debt payable in U.S. funds by its Canadian subsidiaries has been deferred until realized and is included in "Deferred charges" on the balance sheet.

(e) Fixed assets
Depreciation is recorded principally on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½ to 5%
Automotive equipment	15 to 25%
Fishing vessels	6⅔ to 7½%
Equipment and fixtures	5 to 20%
Leasehold improvements	Lesser of useful life and term of lease

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income, except that U.S. retail subsidiaries apply the gain or loss on normal dispositions of equipment and fixtures to accumulated depreciation.

(f) Deferred real estate income
The profits realized on the sale and leaseback of property have been deferred and are being amortized over various periods, mainly twenty-five years, according to the terms of the related leases.

2. Income Taxes

(a) A summary of accounting losses, the tax effects of which have not been recorded in the accounts, is as follows at December 31, 1977:

	Latest year available for deduction	United States subsidiaries	Canadian subsidiaries
		(in thousands of dollars)	
Losses which may be carried forward on a tax filing basis:	1978	$11,088	$ 394
	1979	5,175	1,726
	1980	9,853	10,168
	1981		2,482
	1982		1,453
	1983	48,620	
	1984	2,325	
		77,061	16,223
Expenses recorded for book purposes not yet claimed for tax purposes		17,022	12,112
Accounting losses, the tax effects of which have not been recognized in the financial statements		$94,083	$28,335
The Company's effective interest therein		$71,360	$24,401

(b) At December 31, 1977 United States subsidiaries have unused investment tax credits of $4,079,000 expiring no later than 1984. The Company's effective interest in these credits amounts to $3,120,000.

(c) The 3% inventory allowance provided as a reduction of taxable income in 1977 reduced income tax expense for this year by $4,390,000 and increased earnings from continuing operations by $3,785,000.

(d) Income tax expense includes deferred taxes of $5,826,000 (1976 — $6,537,000).

3. Disposals

The Company and its subsidiaries divested themselves of various operations in 1977 and 1976 which had consolidated sales to the dates of disposal of $50,000,000 (1976 — $227,000,000). Their results of operations, excluding extraordinary disposal losses, to the dates of disposal reduced earnings from continuing operations by $1,547,000 (1976 — $1,993,000).

In 1976, subsidiary companies of Loblaw Companies Limited discontinued approximately one half of their United States

operations with the closing of approximately 250 stores in the regions of Chicago-Illinois, Syracuse-New York and California. In order to remove the effect of these divisions from the 1976 operating results, their loss of $24,136,000 on sales of $709,219,000 was accounted for as discontinued operations and reflected as a separate charge in the statement of earnings. Other costs associated with the closure were disclosed as extraordinary items.

4. Extraordinary Items

	1977	1976
	(in thousands of dollars)	
Gain on sale of investments and subsidiaries' shares (net of minority interest 1977 — $787,000, 1976 — $1,644,000)	$ 4,387	$ 16,989
Income tax reductions realized on application of prior years' losses (net of minority interest 1977 — $1,390,000, 1976 — $329,000)	4,584	1,583
Discontinued operations		
Store operations, loss on disposal of fixed assets, leasehold terminations and other related costs during close-down periods (net of income tax reductions 1977 — $5,025,000, 1976 — $2,164,000 and minority interest 1977 — $652,000, 1976 — $8,784,000)	(4,403)	(24,999)
	$ 4,568	$ (6,427)

5. Accounts Receivable

	1977	1976
	(in thousands of dollars)	
Trade	$141,534	$116,845
Loans, advances, and non-current receivables due within one year	2,545	1,423
Other	15,714	31,442
	$159,793	$149,710

6. Inventories, by division

	1977			1976
	Raw materials and supplies	Finished goods	Total	Total
	(in thousands of dollars)			
Wholesale and retail	$ 2,417	$270,958	$273,375	$285,811
Food processing	38,114	32,073	70,187	58,565
Fisheries	11,029	60,432	71,461	74,122
Forest products	24,053	16,127	40,180	37,858
	$ 75,613	$379,590	$455,203	$456,356

7. Investments, at cost

	1977	1976
	(in thousands of dollars)	
Secured loans and advances	$ 12,502	$ 15,731
Sundry investments	4,501	9,493
Non-current receivables	18,887	6,838
	$ 35,890	$ 32,062

Secured loans and advances include $4,521,000 (1976 — $4,770,000) owing by directors and officers of the Company and its subsidiaries arising out of the purchase of preferred shares of the Company through a trustee as part of the Company's incentive plan. These advances are secured by the shares purchased.

8. Fixed Assets, at cost

	1977	1976
	(in thousands of dollars)	
Land	$ 29,142	$ 29,878
Buildings	147,580	135,813
Equipment and fixtures	587,804	602,720
Leasehold improvements	82,465	79,652
	846,991	848,063
Accumulated depreciation	411,230	427,765
	$435,761	$420,298

9. Bank Advances and Notes Payable

Bank indebtedness of certain subsidiary companies of approximately $17,162,000 is secured by a pledge of accounts receivable and inventories of these companies.

10. Accounts Payable and Accrued Liabilities

	1977	1976
	(in thousands of dollars)	
Trade	$199,806	$215,102
Other	104,734	100,750
	$304,540	$315,852

11. Long-Term Debt

	Maturity	Payable within one year	Total 1977	Total 1976
		(in thousands of dollars)		
George Weston Limited				
Sinking Fund Debentures				
5¼% Series C	1982	$ 332	$ 6,407	$ 6,798
5½% Series D	1983	152	6,752	7,504
6¾% Series E	1986	177	4,927	5,250
6¾% Series F	1987	316	18,316	19,023
Bank loan bearing interest at the London Interbank offered rate plus 1⅝% before 1983, plus 2% thereafter	1987	658	13,151	
Bank loan				19,000
Bank term debenture				12,000
		1,635	49,553	69,575
British Columbia Packers Limited and subsidiaries				
Bank term loan bearing interest at 1% above the bank's prime rate	1982	2,000	10,000	10,000
First Mortgage Sinking Fund Bonds				
6½% Series B (U.S. $2,250,000)	1983	399	2,394	2,704
6½% Series C (U.S. $750,000)	1983	133	798	901
Other long-term debt	1985-1986	29	266	593
		2,561	13,458	14,198
Loblaw Companies Limited				
Bank loan bearing interest at 1¾% above the U.S. bank's prime rate (U.S. $14,250,000)	1983	798	15,160	15,464

	Maturity	Payable within one year	Total 1977	Total 1976
		(in thousands of dollars)		
Bank loan bearing interest at 1¾% above the U.S. bank's prime rate (U.S. $14,625,000)	1984	$ 798	$15,558	
Bank loan bearing interest at 1% above the bank's prime rate	1984		17,500	
Bank loan				$ 16,000
		1,596	48,218	31,464
Loblaws Limited				
Sinking Fund Debentures				
6% Series E				1,920
5¾% Series F	1981	187	3,387	3,502
6⅝% Series G	1991		5,175	5,560
6¾% Series H	1991		5,474	5,849
Bank loan				15,000
Mortgages payable	1978-1994	576	1,242	260
		763	15,278	32,091
Glenmaple Overseas N.V.				
Bank loan				20,619
Kelly, Douglas & Company, Limited and subsidiaries				
Sinking Fund Debentures				
6% Series A				1,085
8⅜% 1973 Series	1993		11,389	11,475
Bank loan				5,250
Notes, mortgages and other long-term debt (including U.S.$2,493,000)	1978-1997	120	3,509	1,272
		120	14,898	19,082
National Holdings Inc.				
Bank loan				15,464
National Tea Co. and subsidiaries				
Bank loans bearing interest at 120% of the U.S. bank's prime rate (U.S. $10,000,000) and at U.S. bank's prime rate (U.S. $5,000,000)	1984		15,957	
5% Sinking Fund Debenture				2,878
3½% Subordinated Debentures (U.S. $2,313,000)	1980		2,461	2,385
Instalment mortgage notes (U.S. $2,755,000)	1978-1996	157	2,931	2,504
Notes and other long-term debt	1978-1980	411	730	768
		568	22,079	8,535
Westcane Sugar Limited				
9⅜% Sinking Fund Debentures	1978	1,200	1,200	2,400
9⅜% First Mortgage Sinking Fund Bonds	1993		9,000	9,000
		1,200	10,200	11,400
Other				
Bank loan bearing interest at 1% above the U.S. bank's prime rate (U.S. $7,825,000)	1980		8,324	8,067
Notes, mortgages and other long-term debt with a weighted average interest rate of 9.8% (including U.S. $4,575,000)	1978-1998	1,833	23,931	16,865
		1,833	32,255	24,932
		$10,276	205,939	247,360
Less payable within one year			10,276	14,705
Long-term debt			$195,663	$232,655

At March 16, 1978 the Canadian bank's prime rate was 8¾%, the U.S. bank's prime rate was 8% and the London Interbank offered rate was 8%.

Principal payable in the next five years on the long-term debt of the Company and its subsidiaries is:

1978	$10,276,000	1981	$16,229,000
1979	11,663,000	1982	26,701,000
1980	28,670,000		

12. Other Liabilities

	1977	1976
	(in thousands of dollars)	
Provision for future net obligations on closed operations	$ 6,973	$ 5,361
Deferred employee compensation	6,516	5,071
Provision for self insurance	1,383	1,340
	$ 14,872	$ 11,772

13. Capital Stock

	Number of shares 1977	Number of shares 1976	Amount 1977	Amount 1976
			(in thousands of dollars)	
Preferred cumulative redeemable shares, par value $100 each, issuable in series				
Authorized	310,040	351,497		
Issued				
4½% First series, redeemable at a premium of 4%	90,839	91,540	$ 9,083	$ 9,154
6% Second series, redeemable at a premium of 5%	75,423	75,868	7,542	7,586
6% Third series, redeemable at par after October 1, 1980, convertible into 5 common shares for each preferred share and $3.75	2,000	2,000	200	200
6% Fourth series, redeemable at par after October 1, 1980, convertible into 8 common shares for each preferred share and $12.00	625	625	63	63
6% Fifth series, redeemable at par after September 1, 1982, convertible into 5 common shares for each preferred share and $11.25	20,000	20,000	2,000	2,000
6% Seventh series, redeemable at par after February 19, 1983, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $21.00		2,500		250

	Number of shares 1977	Number of shares 1976	Amount 1977	Amount 1976
			(in thousands of dollars)	
6% Eighth series, redeemable at par after January 27, 1985, convertible into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $22.50	20,375	20,375	$ 2,038	$ 2,038
6% Ninth series, redeemable at par after December 3, 1986, convertible into 100 common shares for every 11 preferred shares	2,200	2,200	220	220
	211,462	215,108	21,146	21,511
Second Preferred cumulative redeemable and retractable shares, par value of $1 to $100 each, issuable in series				
Authorized	10,000,000			
Issued				
Series A, par value of $100, redeemable, and retractable on December 1, 1987, at par; annual dividend rate is one half average bank prime rate plus 1¼%	750,000		75,000	
			96,146	21,511
Common shares, without par value				
Authorized	16,950,000	16,950,000		
Issued	11,019,357	11,019,357	21,225	21,225
			$117,371	$ 42,736

In 1977, the Company created a class of 10,000,000 Second Preferred shares and issued 750,000 of these shares, designated as Series A shares, at par value of $100 each for $75,000,000 on December 1, 1977. These shares are retractable at par at the option of the holder on December 1, 1987 and earlier only in the event of adverse change in the tax status of the dividends received. In the event of early retraction the holder will loan the Company funds sufficient to complete the retraction.

During the year 3,646 preferred shares (1976 — 2,007 shares) were purchased for cancellation at a cost of $321,000 (1976 — $149,000).

Subsequent to the year-end, the Company issued 43,375 8% Tenth series cumulative, redeemable preferred shares convertible after certain vesting periods into the number of common shares obtained by dividing the aggregate par value of such preferred shares by $16.125. In addition 1,000 Third series and all of the Fifth and Eighth series preferred shares have been purchased for cancellation. After giving effect to the foregoing the Company will have reserved 298,992 common shares for potential conversion of the preferred shares.

An employee stock option plan also has been established subsequent to the year-end under which 150,000 common shares have been set aside for options under terms of the plan. Options have been granted to 28 employees for 122,450 shares exercisable after certain vesting periods at $16.125 per share expiring not later than March 16, 1983.

The exercise of the conversion privileges and the stock options would not have a material effect on earnings per share.

14. Retained Earnings

The Trust Indentures securing the Company's sinking fund debentures contain provisions whereby certain tests must be met before the declaration of dividends. At December 31, 1977 a substantial portion of consolidated retained earnings is available for dividends under these tests. There are also dividend restrictions under Anti-Inflation legislation.

15. Commitments and Contingent Liabilities

(a) The Company and its subsidiaries have obligations under long-term leases for retail outlets, warehousing facilities, equipment and store fixtures. The aggregate rentals, exclusive of additional rents based on sales, realty taxes and other charges, under leases with an initial term greater than five years are as follows for each of the periods shown:

	Gross liability	Expected sublease income	Net liability
		(in thousands of dollars)	
For the year			
1978	$ 75,148	$ 18,956	$ 56,192
1979	72,568	17,634	54,934
1980	68,834	15,737	53,097
1981	64,150	13,922	50,228
1982	60,084	12,461	47,623
For the five years ending			
1987	221,086	47,456	173,630
1992	160,152	34,164	125,988
1997	94,770	18,981	75,789
2002	35,537	7,615	27,922
Thereafter to 2023	18,020	253	17,767
	$870,349	$187,179	$683,170

(b) Endorsements and guarantees amount to $76,109,000.

(c) The present value of the unfunded past service pension liability is estimated to be $34,300,000 at December 31, 1977 and is being amortized over varying periods not exceeding seventeen years.

Auditors' Report

16. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to Anti-Inflation legislation of the Federal Government. This legislation provides for restraint with respect to prices, profit margins, employee compensation and dividends.

17. Other Information

(a) The aggregate direct remuneration paid to directors and officers is as follows:

Number of directors	11
Number of officers	19 (including 2 former officers)
Number of officers who are also directors	8

	Directors' fees	Other remuneration
Paid by the Company	Nil	$976,694
Paid by subsidiaries	Nil	563,400

(b) Sales, by division

	1977	1976
	(in millions of dollars)	
Wholesale and retail	$3,735.4	$3,525.0
Food processing	550.2	542.0
Fisheries	260.8	210.8
Forest products and packaging	223.7	251.2
Interdivision	(180.0)	(184.2)
	$4,590.1	$4,344.8

(c) The Companies Act of British Columbia

These financial statements comply with the disclosure requirements of the act of incorporation (the Canada Corporations Act) and the securities legislation of certain provinces in Canada, but do not purport to comply with all disclosure requirements unique to the Companies Act of British Columbia.

(d) The prior year's comparative figures have been reclassified to conform with the current year's financial statement presentation.

To the Shareholders of
George Weston Limited

We have examined the consolidated balance sheet of George Weston Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of George Weston Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Chartered Accountants

Toronto, Canada
March 16, 1978

Seven Year Summary

George Weston Limited
(in millions of dollars)

	Including all subsidiaries				Excluding Loblaw Companies Limited		
	1977	1976	1975	1974	1973	1972	1971
Sales and Earnings							
Sales	**4,590**	4,345	4,137	4,711	1,377	1,137	1,037
Operating Income	**102**	91	112	139	85	45	39
Interest Expense	**37**	45	40	45	16	10	10
Earnings from Continuing Operations	**27**	16	30	41	35	19	15
Net Earnings (Loss)	**32**	(15)	16	42	35	30	17
Financial Position							
Current Assets	**657**	713	712	784	345	258	235
Current Liabilities	**481**	592	567	603	226	156	135
Working Capital	**176**	121	145	181	119	102	100
Fixed Assets	**436**	420	483	458	213	183	181
Long-Term Debt	**196**	233	270	258	132	111	105
Shareholders' Equity	**305**	206	234	230	215	192	171
Total Equity including Minority Interest	**401**	298	343	370	242	217	195
Total Assets	**1,146**	1,189	1,248	1,294	623	498	457
Cash Flow							
Cash Flow from Operations	**95**	76	89	101	67	38	31
Purchase of Fixed Assets	**98**	100	97	116	49	27	18
Dividends — Common and Preferred	**8**	13	15	14	12	11	10
Per Common Share (in dollars)							
Earnings from Continuing Operations	**2.36**	1.33	2.59	3.65	3.06	1.61	1.29
Net Earnings (Loss)	**2.77**	(1.44)	1.37	3.73	3.06	2.65	1.45
Dividends	**.60**	1.07	1.22	1.20	1.00	.88	.84
Cash Flow from Operations	**8.66**	6.87	8.10	9.17	6.05	3.48	2.87
Book Value	**18.97**	16.77	19.28	19.13	17.69	15.63	13.85
Market Value — High	**14.75**	18.50	23.50	25.00	22.38	23.25	20.13
Low	**11.50**	10.50	16.25	17.75	17.75	17.00	13.75

Note: Loblaw Companies Limited was not consolidated with George Weston Limited prior to 1974.

Directors

W. Galen Weston
Chairman of the Board
and Managing Director
George Weston Limited
Chairman of the Board
and Chief Executive Officer
Loblaw Companies Limited

W. Garfield Weston
Vice Chairman of the Board
and President
George Weston Limited

Richard J. Currie
Senior Vice President
George Weston Limited
President and Chief
Operating Officer
Loblaw Companies Limited

David A. Nichol
Senior Vice President
George Weston Limited
President
Loblaws Ontario Division

Mark Hoffman
Senior Vice President
George Weston Limited
Vice President
Loblaw Companies Limited

George C. Metcalf
Vice President
George Weston Limited
Vice Chairman of the Board
Loblaw Companies Limited

S. Simon Reisman
Chairman
Reisman & Grandy Ltd.

Frank A. Riddell
Senior Vice President
George Weston Limited
Chairman of the Board
Weston Bakeries Limited

James A. Watson
Chairman of the Board
National Tea Co.

Richard I. Nelson
Chairman and Chief Executive Officer
British Columbia Packers Limited

Garry H. Weston
Chairman
Associated British Foods Limited

Officers

W. Galen Weston
Chairman of the Board
and Managing Director

W. Garfield Weston
Vice Chairman of the Board
and President

Richard J. Currie
Senior Vice President

David A. Nichol
Senior Vice President

Mark Hoffman
Senior Vice President and
Chief Financial Officer

Frank A. Riddell
Senior Vice President,
Food Processing

George C. Metcalf
Vice President

William A. Sloan
Vice President, Finance

Kenneth H. Smith
Vice President
and Secretary

Ian M. Young
Treasurer

Kenneth L. Harlock
Controller

Ivan R. Franklin
Corporate Tax Officer

Ralph S. Barnes
Financial Planning and
Analysis Manager

Terrence H. Wardrop
Assistant Controller

Charlotte Welch
Assistant Secretary

Stewart E. Green
Assistant Secretary

James N. Bunsch
Assistant Treasurer

Executive Offices
22 St. Clair Avenue East
Toronto, Ontario

Stock Listings
Toronto, Montreal and Vancouver
Stock Exchanges

Transfer Agents
National Trust Company, Limited
Toronto, Montreal, Winnipeg,
Edmonton and Vancouver.
The Detroit Bank and Trust Company,
Detroit, Michigan, U.S.A.

General Counsel
Smith, Lyons, Torrance,
Stevenson and Mayer

Auditors
Thorne Riddell & Co.
Toronto, Ontario

The colored stock used in this report is Certificate Royale, manufactured by Eastern Fine Paper, Inc., a member of the Weston Group of companies.

Printed in Canada